

citizens *telecomm*

1997 Cost Allocation Manual

Revised April 1, 1997

DOCKET FILE COPY ORIGINAL

February 13, 1997

citizens

FCC Common Carrier Bureau
Accounting and Audits Division
2000 L Street, N.W., Room 812
Washington, DC 20554

RECEIVED
FEB 18 1997

Re: Payphone Deregulation Changes to Cost Allocation Manual

Dear Sir/Madam:

Per FCC CC Docket 96-128, enclosed is a copy of Citizens Telecommunications Company of New York Cost Allocation Manual, Revised as of April 1, 1997 to reflect the deregulation of pay telephone operations. The company is not seeking proprietary treatment.

Acknowledgment and date of receipt of this filing is requested. A duplicate copy of this transmittal letter is enclosed for this purpose. Please forward the acknowledgment to:

Richard M. Tettelbaum
Senior Attorney
Citizens Telecom
1400 16th Street, Suite 500
Washington, DC 20036

If you have any questions regarding the enclosed, please contact Michael A. Hess, Manager of Financial Reporting, at 214/365-3509.

Sincerely,



Mark D. Nuss
Controller

No. of Copies rec'd 4
List ABCDE

Enclosures: Duplicate letter
Cost Allocation Manual

cc: FCC Common Carrier, Bureau Accounting & Audits
FCC Secretary

The following describes the substantive changes to the April 1, 1997 Cost Allocation Manual of Citizens Utilities Company.

DESCRIPTION OF CHANGES:

| Account/Description | Change From: | Change To: | Reason for Change: |
|---------------------|---|--|---|
| Page II-2 | <u>Yellow Page Listing Services</u> Citizens Telecom provides yellow page listing services for which, under FCC rules, associated costs and revenues are treated as nonregulated for federal accounting purposes. Yellow pages revenue is booked to appropriate subaccounts in Account 5230 - Directory Revenue, which is allocated between regulated and nonregulated as required by the FCC's joint cost rules | Deleted | Yellow Page Listing Services no longer provided by CTC-NY |
| Page II-2 | Add | <u>Pay Telephone Services</u> Citizens Telecom provides pay telephone services which were deregulated by the FCC in CC Docket No. 96-128. The assets utilized to provide these services are recorded to Public Telephone Equipment, Account 2351. Employees engaged in installation, maintenance or collection activities for pay telephone services report their time on a positive basis to function codes designated for these purposes. These function codes map to nonregulated cost pools within the appropriate Part 32 account. | Per CC Docket No. 96-128 |
| Page V-2 | <u>Tariffed Telephone Service</u> CTC-NY is the local exchange company in several locations where Citizens Telecommunications Service Company has operations. Telephone services are provided to this nonregulated affiliate on an ongoing basis at tariffed rates. | <u>Tariffed Telephone Service</u> CTC-NY is the local exchange company in several locations where affiliates have operations. Telephone services are provided to affiliates on an ongoing basis at tariffed rates. | Clarification |
| Page V-2 | <u>Building Space Rental</u> CTC-NY has joint use buildings with Citizens Telecommunications Service Company and Citizens Telecommunications Company, Inc. In accordance with FCC Part 32.14(e), 32.23(c) and 32.27, building space rental is provided to these nonregulated affiliates on an ongoing basis at market rate. If a market rate is not available, fully | <u>Building Space Rental</u> CTC-NY has joint use buildings with affiliates. In accordance with FCC Part 32.14(e), 32.23(c) and 32.27, building space rental is provided to these affiliates on an ongoing basis at market rate. If a market rate is not available, fully distributed cost is used, including a return on investment charge equal to the prescribed FCC rate of return. | Clarification |

The following describes the substantive changes to the April 1, 1997 Cost Allocation Manual of Citizens Utilities Company.

DESCRIPTION OF CHANGES:

| Account/Description | Change From: | Change To: | Reason for Change: |
|---|---|---|---|
| | distributed cost is used, including a return on investment charge equal to the prescribed FCC rate of return. | | |
| Page V-2 | <u>Billing & Collection Services</u> CTC-NY is the local exchange company in several locations where Citizens Telecommunications Company, Inc. has operations. Billing and Collection services, including message bill processing and bill rendering, are provided at the market rate. | <u>Billing & Collection Services</u> CTC-NY is the local exchange company in several locations where affiliates have operations. Billing and Collection services, including message bill processing and bill rendering, are provided at the market rate. | Clarification |
| Page V-2 | <u>Directory Listings</u> CTC-NY infrequently sells customer white page listings to Citizens Telecommunications Company, Inc. at market rate. | <u>Directory Listings</u> CTC-NY infrequently sells customer white page listings to affiliates at market rate. | Clarification |
| Page V-2 | <u>Network Services</u> CTC-NY is the local exchange company in several locations where Citizens Telecommunications Company, Inc. has operations. Network services, including the leasing of local exchange circuits and tandem switching services, are provided at tariffed rates. | <u>Network Services</u> CTC-NY is the local exchange company in several locations where affiliates have operations. Network services, including the leasing of local exchange circuits and tandem switching services, are provided at tariffed rates. | Clarification |
| Page V-4 | Add | <u>Directory Services</u> Citizens Directory Services Company, Inc. provides directory services to CTC-NY on an ongoing basis at market rates. | Service now provided by an affiliate |
| Account 2351 Public Telephone Terminal Equipment | Directly Assigned to Regulated | Directly Assigned to Nonregulated | Per CC Docket No. 96-128 |
| Account 4360 Other Deferred Credits | Deferred Yellow Pages Revenue | Deleted | Yellow Page Listing Services no longer provided by CTC-NY |
| Account 5010 Public Telephone | Directly Assigned to Regulated | Directly Assigned to Nonregulated | Per CC Docket 96-128 |
| Account 6212 Digital Electronic Switching Expense | Indirect Attribution | Direct Attribution | Correction |
| Account 6231 Radio Systems Expense | Indirect Attribution | Direct Attribution | Correction |
| Account 6232 Circuit Equipment Expense | Indirect Attribution | Direct Attribution | Correction |
| Account 6351 Public Telephone Terminal Equipment Expense | Directly Assigned to Regulated | Directly Assigned to Nonregulated | Per CC Docket No. 96-128 |

The following describes the substantive changes to the April 1, 1997 Cost Allocation Manual of Citizens Utilities Company.

DESCRIPTION OF CHANGES:

| Account/Description | Change From: | Change To: | Reason for Change: |
|---------------------|--|--|--------------------|
| Page VII-3 | However, functions such as Service Order, End User Billing, and Revenue Accounting, are reviewed in a special study to determine the appropriate attribution to regulated and nonregulated operations. | However, Service Orders are reviewed in a special study to determine the appropriate attribution to regulated and nonregulated operations. | Correction |
| | | | |

Checklist of Revised Dates

As of April 1, 1997

| | Page <u>No.</u> | Date <u>Revised</u> |
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| | 4 | 09/12/95 |
| | 5 | 09/12/95 |
| Section II - Nonregulated Activities | 1 | 10/31/96 |
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| | 3 | 04/01/97 |
| | 4 | 04/01/97 |
| Section III - Incidental Activities | 1 | 02/23/96 |
| | 2 | 12/31/96 |
| Section IV - Chart of Affiliates | 1 | 10/31/96 |
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| Section V - Transactions With Affiliates | 1 | 10/31/96 |
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| | 3 | 12/31/96 |
| | 4 | 04/01/97 |
| | 5 | 04/01/97 |
| | 6 | 04/01/97 |
| Section VI - Cost Apportionment Table | 1 | 02/23/96 |
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| | 6 | 10/31/95 |
| | 7 | 10/31/96 |
| | 8 | 10/31/96 |
| | 9 | 09/12/95 |
| | 10 | 09/12/95 |
| | 11 | 02/23/96 |
| | 12 | 09/12/95 |
| | 13 | 12/31/96 |
| | 14 | 02/23/96 |

| | | |
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| | 2 | 02/23/96 |
| | 3 | 04/01/97 |
| | 4 | 03/31/95 |
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CITIZENS UTILITIES COMPANY

COST ALLOCATION MANUAL

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I

I. INTRODUCTION

A. Purpose of the Cost Allocation Manual

This Cost Allocation Manual documents the methods used by Citizens Utilities Company to separate the costs of regulated telecommunications services from nonregulated activities. The procedures in this manual are intended to guard against subsidy of nonregulated activities and to detail transactions between the regulated telephone division and its affiliates, as set forth in the Federal Communications Commission's rules and regulations.

This manual is applicable to the following Tier 1 local exchange carrier ("LEC") operations of Citizens Utilities Company ("CUC"):

- Citizens Telecommunications Company of New York, Inc. (Citizens Telecommunications Company of New York, Inc. is a wholly-owned subsidiary of CUC)

For purposes of this CAM, the following terms shall have the meaning indicated:

"Citizens Telecom" collectively refers to any or all CUC local exchange company subsidiaries providing common carrier telecommunications services

"CTC-NY" shall mean Citizens Telecommunications Company of New York, Inc.

B. Accounting Treatment of Nonregulated Activities

The accounting treatment of nonregulated activities depends on the extent of the common or shared use of assets and resources in the provision of both regulated and nonregulated services.

If a nonregulated activity uses a tariffed network service, that service is charged to the nonregulated activity at the tariffed rate and the revenue is recorded to the regulated revenue accounts of Citizens Telecom.

When a nonregulated activity does involve the common or shared use of assets and resources used in the provision of regulated services, the investment, reserves, revenue and expenses associated with those assets and resources are recorded on the books of account for the regulated telecommunications operating company. The regulated telecommunications operating company accounts are then subjected to the cost apportionment

procedures set forth in this manual, in order to separate the costs of nonregulated from regulated activities, on a fully distributed cost basis.

C. Cost Apportionment Principles

Common or shared costs are attributed to regulated and nonregulated activities on a hierarchical apportionment basis: direct assignment, direct attribution, indirect attribution and general allocation.

Direct Assignment

Costs are directly assigned to either regulated or nonregulated activities whenever possible.

Direct Attribution

Costs that cannot be directly assigned are grouped into homogenous cost pools designed to facilitate the proper allocation of costs between regulated and nonregulated activities.

Whenever possible, the homogenous cost pools are directly attributed to regulated or nonregulated activities, based on an analysis of cost-causation or direct analysis of the costs themselves. The apportionment of motor vehicle investment based on analysis of the usage of those vehicles is an example of direct attribution.

If a nonregulated activity involves the use of shared network investment in central office equipment or cable and wire facilities, the investment is apportioned to nonregulated and regulated activities on the basis of the forecasted three year peak usage factor.

Indirect Attribution

Costs that cannot be directly attributed are indirectly attributed to regulated and nonregulated activities, based on an indirect, but cost-causative linkage to another cost pool or group of cost pools for which direct assignment or direct attribution methods are available. The apportionment of investment in garage work equipment in proportion to the combined investment in motor and special purpose vehicles is an example of indirect attribution.

General Allocation

If no cost-causative linkage is available for a marketing cost pool, the Marketing General Allocator will be used to apportion the cost to regulated and nonregulated activities. The Marketing General Allocator is comprised

of all other marketing cost pools for which direct assignment, direct attribution, or indirect attribution methods are available.

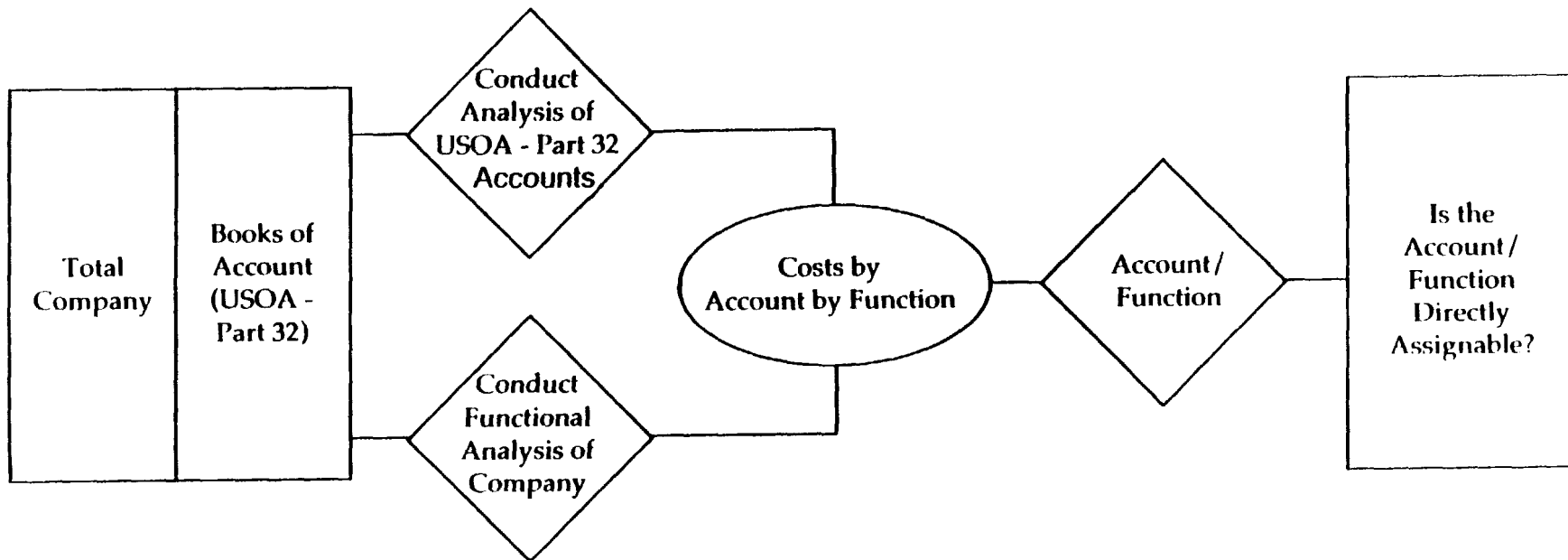
The Income tax allocator is used to apportion the costs in accounts 7220 and 7230 (income tax accounts), between regulated and nonregulated activities based on annual book taxable income.

Once all of the direct assignments and attributions have been completed, any residual amounts remaining are allocated between regulated and nonregulated activities based on the General Allocator. The General Allocator is the total expense assigned and attributed in the three month period ending two months before the current month. For example, September is allocated based on April, May and June.

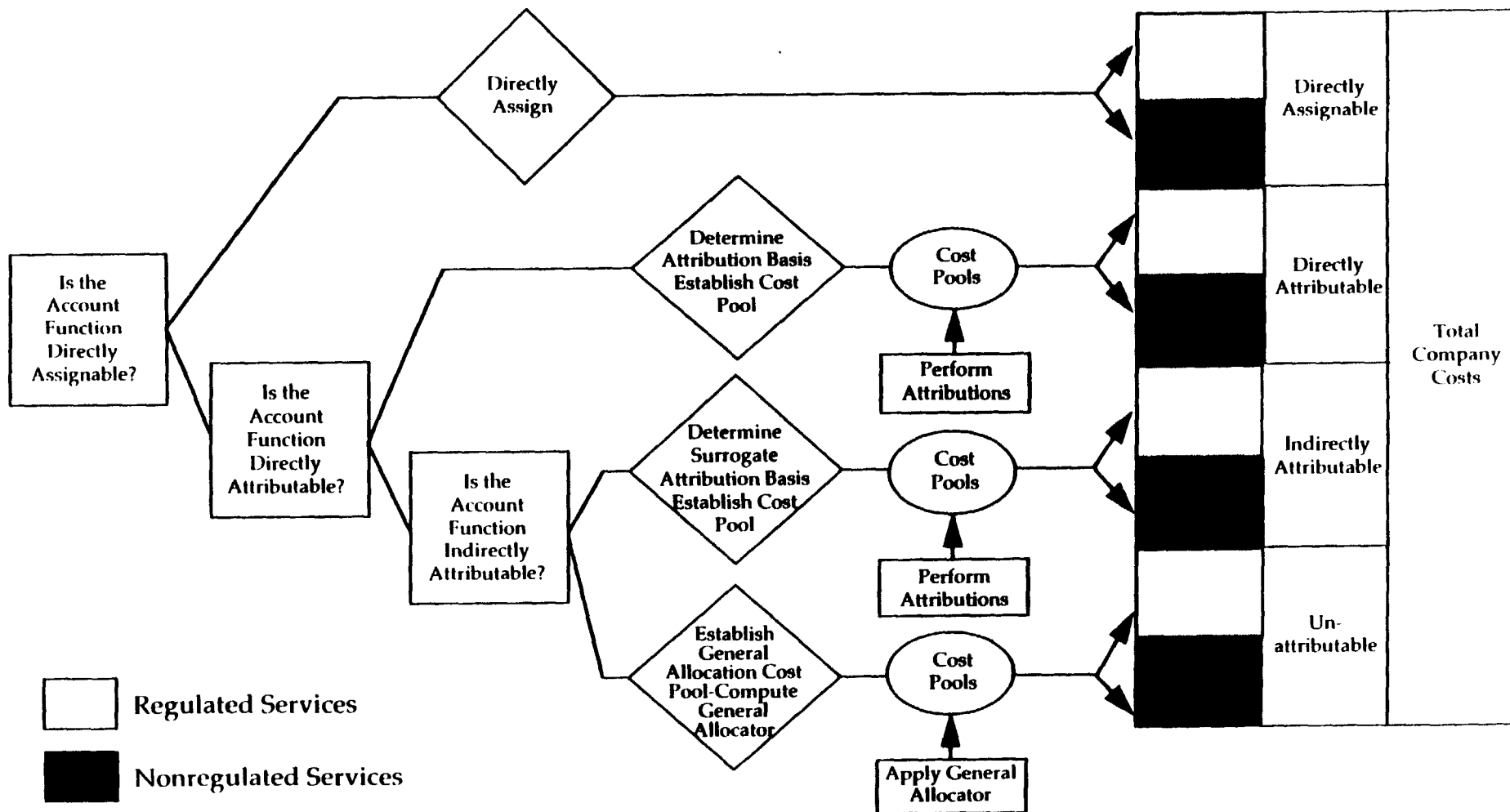
D. Cost Apportionment Flowchart

Exhibit I illustrates the cost apportionment process described in Section C: Cost Apportionment Principles.

Cost Apportionment Flowchart



Cost Apportionment Flowchart



II. NONREGULATED ACTIVITIES

Description of Nonregulated Activities

A. Introduction

This section identifies and describes two categories of nonregulated activities that reflect the telcos' current offerings. The two categories are defined below.

1. Activities which have never been subject to tariff regulation
2. Activities which the FCC has preemptively detariffed.

B. Activities Which Have Never Been Subject to Tariff Regulation

These activities are treated as nonregulated based upon an evaluation by each telco of its viability as a business. Therefore, each activity may not be offered by all of the telcos', and in some instances, a similar activity may be offered as an incidental activity in other telcos'. Exhibit II-1 is a chart of accounts/nonregulated services.

Voice Messaging Services

Voice Messaging Services is a central office based voice messaging system with the capability to record and store messages for subsequent playback. Voice Messaging Services are furnished to business and residential customers served by those central offices equipped to provide the service. Citizens Telecom's Voice Messaging Service equipment is located within the Central Office, but not within the switch. It is therefore recorded to Central Office Circuit Equipment, Account 2232.

C. Activities Which The FCC Preemptively Detariffed

Customer Premises and Network Channel Terminating Equipment

Citizens Telecom provides services involving telecommunications equipment located on the customer's side of the FCC-defined demarcation point. The services provided include sales, lease, installation, maintenance, repair, removal and rearrangement of customer premises equipment (CPE), such as telephone station equipment, small private branch exchange equipment and related software, key systems and related equipment and software, as well as network channel terminating equipment (NCTE).

Employees involved in the technical field work (such as installation, repair, removal, and specific engineering for CPE and NCTE) report their time on a positive basis to function codes designated for these activities. Employees engaged in sales and marketing of CPE and NCTE also report their time on a positive basis to the function codes specified for these nonregulated activities. These function codes map to Accounts 2311 and 6311, Station Apparatus and Accounts 2341 and 6341, Large Private Branch Exchange, for CPE investment and maintenance, and to Accounts 2362 and 6362, Other Terminal Equipment, for NCTE investment and maintenance.

Inside Wire Installation and Maintenance

Citizens Telecom provides installation and maintenance services for inside wire. Inside wire is located on the customer's side of the demarcation point, which the FCC defined in CC Docket No. 88-57 to be within twelve inches of the minimum point of entry to the customer's premises. In the FCC's jurisdiction, both installation and maintenance of inside wire are considered nonregulated. Employees engaged in installation and maintenance of inside wire report their time on a positive basis to function codes designated for these purposes. These function codes map to Account 6362, Other Terminal Equipment. Employees engaged in the sales and marketing of inside wire services also time report on a positive basis to special function codes, which map to Account 6611, Product Management, 6612, Sales, or Account 6623, Customer Services.

Pay Telephone Services

Citizens Telecom provides pay telephone services which were deregulated by the FCC in CC Docket No. 96-128. The assets utilized to provide these services are recorded to Public Telephone Equipment, Account 2351. Employees engaged in installation, maintenance or collection activities for pay telephone services report their time on a positive basis to function codes designated for these purposes. These function codes map to nonregulated cost pools within the appropriate Part 32 account.

CHART OF ACCOUNTS / NONREGULATED ACTIVITIES

| SUMMARY ACCOUNTS | Customer Premise & Network Channel Termination Equip | Inside Wire Installation and Maintenance | Voice Messaging Services | Public Pay Telephone |
|---|--|--|-----------------------------|-------------------------|
| ASSETS | | | | |
| Inventories (1220) | X | X | | X |
| Prepaid Directory Expenses (1320) | | | | |
| Deferred Charges (1439) | | | | |
| Telecommunications Plant Under Construc. (2003) | | | | |
| Telecommunications Plant Adjustment (2005) | | | | |
| General Support Assets (2112 - 2124) | | | | |
| Central Office Switching (2211 - 2215) | | | | |
| Operator Systems (2220) | | | | |
| Central Office Transmission | | | | |
| Radio Systems (2231) | | | | |
| Circuit Equipment (2232) | | | X | |
| Information Orig/Term | | | | |
| Station Apparatus (2311) | X | X | | |
| Customer Premises Wiring (2321) | | | | |
| Large Private Branch Exchanges (2341) | X | X | | |
| Public Telephone Terminal Equipment (2351) | | | | X |
| Other Terminal Equipment (2362) | X | X | | |
| Cable & Wire Facilities (2411 - 2441) | | | | |
| Amortizable Assets (2681 - 2690) | | | | |
| Depreciation & Amortization | | | | |
| Accum. Depreciation (3100) | X | X | X | |
| Accum. Amortization - Leases (3410) | | | | |
| Accum. Amortization - Improvements (3420) | | | | |
| REVENUES | | | | |
| Operating Revenues (5001 - 5169) | | | | X |
| Directory Revenues (5230) | | | | |
| Nonreg. Operating Revenues (5280) | X | X | X | |
| Uncollectibles (530X) | X | X | X | X |
| PLANT SPECIFIC OPERATIONS | | | | |
| Network Support (6112 - 6116) | | | | |
| General Support (6121 - 6124) | | | | |
| Central Office Switching (6211 - 6215) | | | | |
| Operator Systems (6220) | | | | |
| Central Office Transmission | | | | |
| Radio Systems Expense (6231) | | | | |
| Circuit Equipment Expense (6232) | | | X | |
| Information Orig/Term | | | | |
| Station Apparatus Expense (6311) | X | X | | |
| Large Private Branch Exchange Expense (6341) | X | X | | |
| Public Telephone Terminal Equip. Exp. (6351) | | | | X |
| Other Terminal Equipment Expense (6362) | X | X | | |
| Cable & Wire Facilities (6411 - 6441) | | | | |
| PLANT NONSPECIFIC OPERATIONS | | | | |
| Other Property/Equipment (6511 - 6512) | | | | |
| Network Operations | | | | |
| Power Expense (6531) | | | | |
| Network Administration Expense (6532) | X | X | | |
| Testing Expense (6533) | X | X | | |
| Plant Operations Admin. Expense (6534) | | | | |
| Engineering Expense (6535) | | | | |
| Access Expense (6540) | | | | |
| Depreciation & Amortization Expense | | | | |
| Depreciation Expense (6561) | X | X | | |
| Amort. Exp. - Leases/Improvements (6563) | | | | |
| CUSTOMER OPERATIONS | | | | |
| Marketing | | | | |
| Product Management (6611) | X | X | X | |
| Sales (6612) | X | X | X | |
| Product Advertising (6613) | X | X | X | |
| Services | | | | |
| Call Completion Services (6621) | | | | |
| Number Services (6622) | | | | |
| Customer Services (6623) | X | X | X | X |

CHART OF ACCOUNTS / NONREGULATED ACTIVITIES (cont'd)

| SUMMARY ACCOUNTS | Customer Premise & Network Channel Termination Equip | Inside Wire Installation and Maintenance | Voice Messaging Services | Public Pay Phone |
|--|--|--|-----------------------------|------------------|
| CORPORATE OPERATIONS | | | | |
| Executive/Planning (6711 - 6712) | | | | |
| General & Administrative (6721 - 6728) | | | | |
| OTHER ACCOUNTS | | | | |
| Customer Deposits (4040) | | | | |
| Other Accrued Liabilities (4120) | | | | |
| Other Deferred Credits (4360) | | | | |
| Net Current Deferred Operating Income Taxes (4100) | X | X | | X |
| Net Noncurrent Def. Operating Income Taxes (4340) | X | X | | X |
| Other Operating Income & Expense (7110 - 7160) | | | | |
| Operating Taxes (7210 - 7520) | | | | |
| Nonoperating Income & Expense (7310 - 7370) | | | | |
| Interest & Related Items (7510 - 7540) | | | | |
| Extraordinary Items (7610 - 7640) | | | | |
| Nonregulated Net Income (7990) | | | | |

III. INCIDENTAL ACTIVITIES

A. Overview

The FCC's 86-111 Order allows carriers to account for nontariffed activities, offered incidentally to a telephone company's tariffed services, as regulated incidental activities, provided that the following criteria are met:

1. Each activity is an outgrowth of a related regulated operation.
2. Each activity is not a line of business or part of a line of business.
3. Each activity is an existing service and has traditionally been accorded incidental treatment for ratemaking purposes. Each activity has never been a tariffed service.
4. The financial or other risk to the regulated telecommunications operations from these incidental activities is negligible.
5. Each activity is limited by available capacity and no material resources will be added solely to meet increased customer demand for the service.

The total revenue from all incidental activities does not exceed one percent of CTC-NY total revenue for a period of 3 consecutive years. Total revenues include all revenues from all sources, regulated and non-regulated.

B. Listing of Activities

Citizens Telecom has identified the following incidental activities:

| | |
|--------------------------------|---|
| Land and Building Space Rental | To the extent that space is available, land and building space may be rented to third parties. Examples of land and building space rented to other parties include general office space, microwave tower space, and mountaintop land for commercial radio use. (Rental of entire buildings or plots of land are recorded in Account 7360, Other Nonoperating Income). |
|--------------------------------|---|

| | |
|---------------------------------------|---|
| Rental Pole Contact and Conduit Space | To the extent that space is available, pole contact and conduit space is rented to third parties, primarily cable television companies. |
|---------------------------------------|---|

Custom Work

To the extent that normal work loads permit, telephone company plant forces may perform various services requested by customers, such as setting of poles, raising cables, tree-trimming, and minor repairs to customer-owned outside plant. This incidental custom work does not include work to restore or relocate telephone company plant for which costs will be billed to the entity causing the work.

Operator Services Not Covered by Tariff

As part of its regulated operations, Citizens Telecom operators provide directory assistance and call completion services. These same operator forces are also used to provide nontariffed services such as operating services for other companies when the other companies' toll lines terminate in a Citizens Telecom switchboard or centralized rate and route information for other companies. Citizens Telecom uses minimal resources to perform these services and does not pursue these activities as a line of business. Since these services are an outgrowth of providing regulated telephone operator services, they have traditionally been treated as incidental for ratemaking purposes.

Scrap Material

Citizens Telecom sells scrap material when it is no longer of use to its regulated operations.

Sale or Lease of Computer Equipment

Sale or lease of computer hardware or software owned or developed for use in regulated operations.

Switch Monitoring Services

Trunk testing, alarm monitoring and electronic central office data analysis.

Directory Listings

Sale of customer white page listings to interexchange carriers and independent telephone directory publishers.

IV. CHART OF AFFILIATES

- A. Citizens Utilities Company ("CUC") provides, through operating divisions and subsidiaries, diversified services including local exchange, interexchange and commercial mobile radio telecommunications services; electric, gas, water and waste water utility services; and cable television services.

Exhibit IV-1 hereto is a graphic depiction of CUC's operating divisions, which includes administrative and non-telecommunications utilities services operations.

Exhibit IV-2 hereto is a graphic depiction of CUC's subsidiaries engaged in telecommunications operations.

Exhibit IV-3 hereto is a graphic depiction of CUC's subsidiaries engaged in television, energy, water/waste water, and other operations.

The CUC organization charts described above include all affiliated corporations, partnerships or other business organizations which currently provide or receive, or have the potential to provide or receive, equipment or services to or from Citizens Telecom.